

## **Daniel Weintraub: A billion in debt and big payments define 'success'**

**By Daniel Weintraub – Sacramento Bee Columnist**  
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With Gov. Arnold Schwarzenegger pushing hard to overhaul government employee pensions in California, it's no surprise that the people who cherish those benefits are pushing back. But as the debate unfolds, it would help if everyone were arguing about the same thing.

Last week, the San Diego County retirement board voted to oppose Schwarzenegger's proposal. Top county officials blasted his plan and defended the status quo.

"There's no reason to fix something that's not broken," said County Treasurer-Tax Collector Dan McAllister, according to the San Diego Union-Tribune.

Added County Supervisor Dianne Jacob: "Instead of punishing all public pension systems in California, what the state should do is focus on the problem funds and fix those funds, and allow the funds that are financially sound and healthy ... the flexibility to manage within the current defined-benefit system."

The pair cited their own retirement plan as evidence that the current system is working just fine.

But if San Diego County is a model of success, I would hate to see what failure looks like.

The county's pension fund is facing a \$1.2 billion unfunded liability. The shortfall is the result of generous benefit increases awarded when the stock market hit its peak earlier this decade, followed later by investment losses. The deficit has grown even though the county has borrowed money three times since 1994 - in increments of \$430 million, \$737 million and, most recently, \$454 million - to help keep the pension fund afloat.

San Diego taxpayers, meanwhile, are paying about 23 cents on top of every dollar of county workers' salaries to provide these benefits. And those taxpayer contributions don't even reflect the money it takes to service the county's debt, which is accounted for separately.

It's relatively easy to keep a pension fund solvent if you are willing to borrow unlimited amounts - obligating future taxpayers - and pay one-fourth of the cost of salary in premiums to the plan. But that's not evidence of success. It's just the opposite.

The plan Schwarzenegger favors isn't only about keeping pension funds solvent, though it would do that. It's about stabilizing the public's costs and, over time, shifting more resources from retirement benefits to providing current services. It would do so by creating individual accounts for each worker, funded by contributions from the employee matched by the employer. The worker would own the account, could take it with him or her when leaving government service and pass it on to heirs.

One of the virtues of such a plan is its transparency. Everyone - worker, employer and taxpayer - would know what it cost and exactly how it worked. San Diego County is a perfect example of how that is not the case with the current, defined benefit system.

The county's problems date to 2002, when, flush with revenue from the rising stock market, pension fund managers and county officials boosted benefits by 25 percent to 35 percent for employees about to retire and gave cost-of-living increases to those who had already left the county work force. Employees were allowed to retire earlier with full benefits, and their pensions were based on their highest year of salary, rather than the average of three years, as had been the case. All of this cost upward of \$1 billion.

Unfortunately, just as the benefits were approved, the stock market crashed, and the county's investment fund cratered. That left taxpayers paying more for the bigger benefits and paying still more to make up for the losses in the investment fund.

The county's response was to borrow three-quarters of a billion dollars and pour more than \$500 million of that directly into the fund. The rationale: The county could get a better interest rate borrowing on the open market than it was obligated to pay the pension fund for the unpaid portion of the future obligation.

But even with that infusion of borrowed money, the unfunded liability soared, and the contribution rates for the taxpayers skyrocketed. The county's answer: Borrow again.

In June 2004, the county borrowed \$450 million and put the money into the pension fund. Later, county officials sent out a press release crowing about the fact that the fund had gone from 75 percent of solvency to 81 percent. What they didn't say is that all of the improvement resulted from borrowed money.

This is like congratulating yourself for paying off a portion of your growing credit card balance with funds from a second mortgage on your house. The San Diego County pension fund is like a leaky bucket that can stay full only as long as you've got a hose running into it.

When the county approved the benefit hikes back in 2002, the retirement association's newsletter featured a number of workers who shared their stories of glee. One happy camper said she was going to retire early - and still get a pension 10 percent bigger than she had counted on.

"I've already booked my first cruise to the Mediterranean," the woman said.

Let's hope she had a good time. But it was the county's taxpayers who were really taken for a ride.